

**REPORT OF THE AUDIT OF THE
WARREN COUNTY
CLERK**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WARREN COUNTY CLERK

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the Warren County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Warren County Clerk had total receipts of \$24,375,749, which was a \$983,203 increase from the prior year. Except for reimbursed expenses in the amount of \$186,299 and expenditures of \$22,201,376, the County Clerk paid 25% of receipts to the Warren County Fiscal Court in the amount of \$497,019. This was an increase of \$3,425 from the prior year. In addition, operating fund expenditures decreased by \$96,470.

Report Comments:

- The County Clerk Should Implement Procedures Requiring Payroll Expenditures To Be Reconciled
- The County Clerk Should Include All Activity For The Year When Preparing Financial Statements

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS	3
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS	5
NOTES TO THE FINANCIAL STATEMENTS.....	7
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13
COMMENTS AND RECOMMENDATIONS	17



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Dorothy Owens, Warren County Clerk
Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Warren County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2006. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 26, 2007, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Dorothy Owens, Warren County Clerk
Members of the Warren County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Implement Procedures Requiring Payroll Expenditures To Be Reconciled
- The County Clerk Should Include All Activity For The Year When Preparing Financial Statements

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Warren County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

June 26, 2007

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Fees For Services	\$	36,145
Fiscal Court		15,918
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$	2,608,776
Usage Tax		12,569,740
Tangible Personal Property Tax		6,963,637
Notary Fees		35,582
Lien Release Fees		22,524
Miscellaneous Income		36,280
Other-		
Marriage Licenses		27,496
Miscellaneous Licenses		1,205
Deed Transfer Tax		584,872
Delinquent Taxes		561,785
		23,411,897
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts		64,677
Real Estate Mortgages		252,134
Chattel Mortgages and Financing Statements		236,381
Powers of Attorney		8,256
Housing Trust Fund		64,980
All Other Recordings		132,652
Charges for Other Services-		
Candidate Filing Fees		2,830
Copywork		51,292
Postage		21,618
		834,820
Other:		
Refunds/Overpayments		71,176
Miscellaneous		2,503
		73,679
Interest Earned		3,290
Total Revenues		24,375,749

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 2,018,586	
Usage Tax	12,192,199	
Tangible Personal Property Tax	2,465,783	
Miscellaneous	9,657	
Licenses, Taxes, and Fees-		
Delinquent Tax	107,425	
Legal Process Tax	81,955	
Housing Trust Fund	<u>64,980</u>	\$ 16,940,585

Payments to Fiscal Court:

Tangible Personal Property Tax	828,480	
Delinquent Tax	111,935	
Deed Transfer Tax	555,628	
Miscellaneous Licenses	<u>760</u>	1,496,803

Payments to Other Districts:

Tangible Personal Property Tax	3,390,829	
Delinquent Tax	<u>219,763</u>	3,610,592

Payments to Sheriff 3,989

Payments to County Attorney 73,967

Operating Expenditures:

Other Charges-

Refunds	69,841	
Miscellaneous and Bank Transactions	<u>5,599</u>	<u>75,440</u>

Total Expenditures \$ 22,201,376

Net Revenues 2,174,373

Payments to State Treasurer:

75% Operating Fund	1,677,354	
25% County Fund	<u>497,019</u>	<u>2,174,373</u>

Balance Due at Completion of Audit \$ 0

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2006

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2006	\$ (226,955)	\$	\$ (226,955)
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,677,354		1,677,354
Fees Paid to State - County Funds (25%)		497,019	497,019
Fiscal Court Contribution Paid To State (75%)	169,627		169,627
Total Funds Available	1,620,026	497,019	2,117,045
<u>Expenditures</u>			
Warren County Government	17	497,019	497,036
Official's Statutory Maximum	94,106		94,106
Official's Expense Allowance	3,600		3,600
Official's Training Incentive	3,302		3,302
Personnel Services-			
Deputies' Salaries	876,909		876,909
Employee Benefits-			
Employer's Share Social Security	70,124		70,124
Employer's Share Retirement	120,027		120,027
Employer's Paid Health Insurance	82,436		82,436
Employer's Paid Life Insurance	513		513
Unemployment Insurance	3,863		3,863
Workers Compensation Insurance	3,151		3,151
Contracted Services-			
Computer Leases and Maintenance	50,123		50,123
Hardware Rental and Maintenance	220,389		220,389
Software License and Service	616		616

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges-			
Office Supplies	\$ 19,023	\$	\$ 19,023
Postage	25,008		25,008
Other Office Expense	3,045		3,045
Prepare Tax Bills	11,420		11,420
Insurance and Bonds	5,498		5,498
Telephone	5,222		5,222
Recording Books/Binders	12,537		12,537
Clerk's Dues and Conventions	3,440		3,440
Travel Expenses	1,155		1,155
Maintenance and Repairs	2,283		2,283
Books and Guides	2,219		2,219
Total Expenditures	<u>1,620,026</u>	<u>497,019</u>	<u>2,117,045</u>
Fund Balance - December 31, 2006	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2006

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

WARREN COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2006
 (Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives during 2004 in the amount of \$20,474. As of December 31, 2005, the unexpended grant balance was \$20,720. No funds were received or expended during 2006. The unexpended grant balance was \$20,720 as of December 31, 2006.

Note 5. Leases

The Clerk's office was committed to the following lease agreements as of December 31, 2006:

Item Purchased	Monthly Payment	Term of Agreement	Ending Date	Remaining Balance December 31, 2006
Software License & Service	\$ 4,950	60 months	01/14/2010	\$ 183,150
Hardware Rental & Service	<u>13,844</u>	60 months	01/14/2010	<u>512,228</u>
Totals	<u>\$ 18,794</u>			<u>\$ 695,378</u>

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Dorothy Owens, Warren County Clerk
Members of the Warren County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Warren County Clerk for the year ended December 31, 2006, and have issued our report thereon dated June 26, 2007. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Warren County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Warren County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Warren County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The County Clerk Should Implement Procedures Requiring Payroll Expenditures To Be Reconciled
- The County Clerk Should Include All Activity For The Year When Preparing Financial Statements



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Warren County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Warren County Clerk's response to the findings identified in our audit is included in the accompanying comments and recommendations. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Warren County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 26, 2007

COMMENTS AND RECOMMENDATIONS

WARREN COUNTY
DOROTHY OWENS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

The County Clerk Should Implement Procedures Requiring Payroll Expenditures To Be Reconciled

During our review of internal controls, we noted that the bookkeeper records payroll expenditures to the expenditures ledger for the 75% operating fund from the MARS report instead of from the payroll vouchers and payroll registers. The payroll expenditures per payroll vouchers and payroll registers are not being reconciled to the MARS report or to the expenditures ledger for the 75% operating fund. We recommend the County Clerk or designee reconcile totals per payroll vouchers and payroll registers to the MARS report and the expenditures ledger for the 75% operating fund.

County Clerk's Response:

Payroll expenditures will be reconciled correctly.

The County Clerk Should Include All Activity For The Year When Preparing Financial Statements

The expenditures on the fourth quarterly financial report submitted to the Kentucky Governor's Office for Local Development were understated by \$877,675 because the quarterly financial statement did not include expenditures paid after December 31, 2006 that should have been included. The annual settlement prepared included these expenditures. The quarterly financial report should have included all activity pertaining to the year. We recommend the County Clerk submit accurate financial statements to the appropriate agencies. This can be accomplished by implementing the following procedures.

- The quarterly financial report should be compared to the receipts and expenditure ledgers and the annual settlement and any differences reconciled.
- The annual settlement should be compared to the quarterly financial statement and any differences reconciled.
- The receipts and expenditures categories on the quarterly financial report and the annual settlement should be compared to the receipts and expenditures categories on a monthly report to ensure all categories have been included.

County Clerk's Response:

Our cumulative quarterly report has the expenditures paid after 12-31-06 on line (10) unpaid obligations. I am working with my software company to get an itemized column. I am sure when we started this software program, we were approved.

